Team 17 Digital Limited

Annual Report and financial statements for the year ended 31 December 2018

Company Number: 02621976

Team 17 Digital Limited

Officers and professional advisers

Company registration number	02621976
Registered office	Castleview House Calder Island Way Wakefield WF2 7AW
Directors	D J Bestwick J Jones
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Central Square 29 Wellington Street Leeds LS1 4DL

Team 17 Digital Limited

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Team 17 Digital Limited
Strategic Report
For the Year Ended 31 December 2018

Business Review
The principal Key Performance Indicators (KPI) used by the Company are:

1) Gross Profit %

This reduced from 57.0% in the year ended 31 December 2017 to 41.2% in the year ended 31 December 2018.

2) Adjusted EBITDA (Earnings before Interest, Tax, Depreciation, Amortisation (excluding development cost amortisation) and exceptional items.

There were no exceptional items in the current or prior year.

The adjusted EBITDA increased from £10,379,000 in the year ended 31 December 2017 to £16,928,000 in the year ended 31 December 2018.

This performance is considered to be satisfactory.

Principal risks and uncertainties
Effectively managing our risks
Team17 Digital Limited is operating in a competitive and dynamic growth market and as such faces a number of strategic and operational risks. Senior management actively manage the Company's risk register which is regularly reviewed by the Board. The identified risks are up-to-date with the Company's operations and wider environment. The risks are appropriately scored and the mitigations are evaluated and tested.

The key business and financial risks for the Company are set out below:

Strategic
Market growth and disruption – the Company operates in a dynamic industry that has seen consistent growth over many years and increasing levels of competition as the number of new games released grows year on year. This competition is multifaceted, ranging in size, sophistication and capability from large competitors to independent games developers who choose to self-publish. Slower than expected market growth or a failure to remain competitive would adversely affect the Company's performance.

• The Company has longevity and an entrenched position in the industry today. Its portfolio approach, rigorous greenlight process and active lifecycle management of its games provide the Company with confidence that it will continue to release popular games and optimise their commercial success.

Technological change – the industry has seen some major shifts over the past few years with the shift to digital distribution along with the development of middleware such as Unity and Unreal. Ongoing technological change in both the development and distribution of games is to be expected and the Company will need to adapt quickly to these changes in order to remain competitive.

• The Company has a track record of being one of the first to market across new platforms and distribution channels. The Company invests in upskilling its workforce to be at the forefront of technological developments. It is therefore able to anticipate changes in technology and delivery and be agile and adaptable in order that it can react swiftly to changes as they emerge and exploit these as opportunities.

Dependence on concentrated customer base – the Company serves a small number of customers who utilise their proprietary distribution platforms to provide the Company's games to end consumers. Any adverse changes in the status of the Company's relationship with its customers could negatively impact financial performance.

• As a result of developing a commercially successful games portfolio over a long period, the Company has developed heavily entrenched partnerships with its customers over more than 20 years that deliver commercial value on both sides. The Company will continue to invest in these relationships to ensure enduring partnerships that grow and prosper.

Dependence on key titles to generate significant share of Company revenue – The Company has historically been reliant on a subset of successful titles to generate a large share of its revenues. Should the Company fail to competently manage the lifecycle of its core games this may adversely affect it financial results.

• The Company has expanded its portfolio of successful titles over recent years and a core part of its strategy is focussed on continuing to do this in the future. It has a track record of developing franchises with long lifecycles and multiple follow on titles – its greenlight process is directed at identifying future titles with this same potential.

Team 17 Digital Limited
Strategic Report (continued)
For the Year Ended 31 December 2018

Operational

The ability to recruit and retain key and skilled personnel – The achievement of the Company's business plan is dependent on the availability of key skills and experience across its workforce. Loss of key personnel could adversely affect and impact the Company's ability to meet its strategic ambitions.

• Although there will inevitably be some level of staff turnover, the Board believes that the variety of work available for staff along with its strong collaborative environment, high quality leadership and competitive benefits packages make Team17 a place where talented individuals want to build their careers. The Company also has a proactive approach to recruitment and is particularly focussed on partnering with a number of academic institutions providing a graduate intake each year. The Company is proud of how it continues to successfully develop staff internally and also maintains a succession plan to mitigate the impact should any key personnel choose to leave.

IT security – The business is dependent on the security, integrity and operational performance of the system and products it offers. A security breach could significantly impact the business and its ability to execute on its plans.

• The Company regularly reviews its IT and security provisions and invests to ensure they are industry leading and in line with best practice.

Intellectual property – The core assets of the Company are the intellectual property it owns and that of the third-party developers on whose behalf it publishes. Any infringement to this intellectual property by unauthorised third parties may prove damaging and adversely impact the Company's performance.

• The Company legally protects its own- and third-party partner intellectual property. It also proactively scans for any potential infringements and rigorously challenges these where appropriate.

Financial / Economic

Currency risk – The Company's cost base is predominantly in Pounds Sterling (GBP) whilst its revenue is generated globally, with the largest share being received in US Dollars (USD). As such there is a risk that the Company's financial performance could be adversely affected by unfavourable movements in foreign exchange.

• While the longer-term risks of transacting globally cannot be avoided, the Company continually reviews its foreign exchange exposure and where appropriate puts in place forward contracts to minimise exposure where possible. Pricing in different markets can also be flexed if required to minimise margin pressure.

Brexit – There is significant uncertainty around the impact of the UK's decision to leave the European Union but it is likely to result in change to the UK's economic relationships with other countries and may impact the Company's ability to hire new staff from European Union countries which may deplete the available talent resource pool.

• The Company remains proactive in monitoring legislative changes to its industry and is preparing accordingly for any detrimental impact of Brexit.

This report was approved by the board on 24 September 2019 and signed on its behalf.

J Jones

J Jones
Director

Team 17 Digital Limited
Directors' report
For the Year Ended 31 December 2018

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Principal activities
The principal activity of the Company was that of the development and publishing of computer games for the digital market.

Results and dividends
The profit for the year, after taxation amounted to £12,159,000 (2017: £8,677,000)

Directors
The directors who served during the year were:

D J Bestwick
J Jones (appointed 23 October 2018)
J P Bray (resigned 23 October 2018)

Statement of directors' responsibilities in respect of the financial statements
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Disclosure of information to auditors
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- So far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- The directors have taken all the steps that ought to have been taken as the directors in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors
During the current and previous year, PricewaterhouseCoopers LLP were appointed as independent auditors of the Company. PricewaterhouseCoopers LLP offer themselves for reappointment in accordance with the Companies Act 2006.

The financial statements on pages 6 to 19 were approved by the Board of Directors on 24 September 2019 and signed on its behalf by:

JJones

J Jones
Director

Independent auditors' report to the members of Team 17 Digital Limited

Report on the audit of the financial statements

Opinion
In our opinion, Team 17 Digital Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2018; the Statement of Comprehensive Income, the Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern
ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information
The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent auditors' report to the members of Team 17 Digital Limited (continued)

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report..

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report
This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting
Companies Act 2006 exception reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns; or

We have no exceptions to report arising from this responsibility.

Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
24 September 2019

Team 17 Digital Limited
Statement of Comprehensive Income
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Revenue	4	**43,201**	29,634
Cost of sales		**(25,420)**	(12,751)
Gross profit		**17,781**	16,883
Administrative expenses		**(4,022)**	(6,717)
Operating profit	5	**13,759**	10,166
Finance income	8	**78**	8
Finance costs	9	**-**	(74)
Profit before taxation		**13,837**	10,100
Tax on profit	10	**(1,678)**	(1,423)
Profit for the financial year		**12,159**	8,677

All amounts relate to continuing operations.

There were no other comprehensive income transactions in the year and therefore a Statement of Other Comprehensive Income has not been presented.

The notes on pages 9 to 19 form part of these financial statements.

Team 17 Digital Limited
Registered Number: 02621976
Statement of Financial Position
At 31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Intangible assets	11		**2,693**		3,104
Tangible assets	12		**640**		634
			3,333		3,738
Current assets					
Trade and other receivables	13	**13,463**		8,507	
Cash at bank and in hand		**20,268**		8,439	
		33,731		16,946	
Creditors: amounts falling due within one year					
Trade and other payables	14	**(10,214)**		(5,890)	
Net current assets			**23,517**		11,056
Total assets less current liabilities			**26,850**		14,794
Provisions for liabilities					
Deferred taxation	15	**(68)**		(260)	
Other provisions	16	**(139)**		(50)	
			(207)		(310)
Net assets			**26,643**		14,484
Capital and reserves					
Called up share capital	17		**-**		-
Share premium account	18		**6**		6
Profit and loss account	18		**26,637**		14,478
Total Equity			**26,643**		14,484

The notes on pages 9 to 19 form part of these financial statements.

The financial statements were approved by the board of directors and authorised for issue on 24 September 2019, and were signed on its behalf by:

J Jones
Director

Team 17 Digital Limited
Statement of Changes in Equity
For the year ended 31 December 2018

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total Equity £'000
At 1 January 2017	-	6	5,801	5,807
Total comprehensive income for the year	-	-	8,677	8,677
At 31 December 2017	-	6	14,478	14,484
Total comprehensive income for the year	-	-	**12,159**	**12,159**
At 31 December 2018	-	6	**26,637**	**26,643**

The notes on pages 9 to 19 form part of these financial statements.

1. General information

Team 17 Digital Limited is a private company limited by shares and incorporated in England and Wales. The address of its registered office is Castleview House, Calder Island Way, Wakefield, WF2 7AW. The registered number of the Company is 02621976.

The principal activity of the company is that of the development and publishing of computer games for the digital and physical market.

2. Significant Accounting Policies

Basis of preparation
The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

Financial reporting standard 101 – reduced disclosure exemptions
The company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirements of IFRS 7 Financial Instruments: Disclosures
- The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    - Paragraph 79(a)(iv) of IAS 1;
    - Paragraph 73(e) of IAS 16 Property, Plant and Equipment
    - Paragraph 118(e) of IAS 38 Intangible Assets;
    - Paragraph 76 and 79(d) of IAS 40 Investment Property; and
    - Paragraph 50 of IAS 41 Agriculture
- The requirements of paragraphs 10(d), 10(f), 16 38A, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- The requirements of IAS 7 Statements of Cash Flows
- The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- The requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Company, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- The requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets

Going concern
Management has produced forecasts which have been reviewed by the directors. These demonstrate the Company is forecast to generate profits and cash in the year ending 31 December 2018 and beyond and that the Company has sufficient cash reserves and headroom in borrowing facilities to enable the Company to meet its obligations as they fall due for a period of at least 12 months from when these financial statements have been signed.

As such, the Directors are satisfied that the Company and Company have adequate resources to continue to operate for the foreseeable future. For this reason, they continue to adopt the going concern basis for preparing these financial statements.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of comprehensive income when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite and at the balance sheet date. No intangible assets are accorded an indefinite life.

2. Significant Accounting Policies (continued)

Intangible assets (continued)
Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income in cost of sales for development costs and administrative expenses for brand costs.

During the year the Company has revised its approach to the recognition of recoupable costs within its Intellectual Property and its amortisation of development costs – adopting an 85% reducing balance approach in the case of the latter (previously straight line) and retaining the former within capitalised development costs (previously derecognised when 'recovered' from the third party) and amortising in line with all other development costs. This ensures the costs continue to be written off over a two-year period but more accurately reflects the sales curve of the game. This revision in accounting estimate is accounted for as at 31 December 2018 and then prospectively. The net impact of this adjustment was £0.3m. EBITDA does not include an add back for amortisation of games ordinarily as this is booked as a cost of sale item within the accounts, however, due to their prior year and catch up nature these costs have been reflected in the presentation of adjusted EBITDA.

An internally generated intangible asset arising from the Company's development activities is recognised only if all of the following conditions are met:

- completion of the intangible asset is technically feasible so that it will be available to sell as a completed game;
- the Company intends to complete the intangible asset and has the ability to use or license it as indicated above, thus generating probable future economic benefits;
- the expenditure attributable to the intangible asset during its development, mainly salary and third-party developer costs, can be measured reliably; and
- the Company has adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

Internally generated intangible assets, consisting of direct labour costs, other specific direct project costs and attributable project support costs, were amortised on a straight-line basis over their useful economic lives. The estimated useful lives of current development projects is two years.

At 31 December 2018 the amortisation method was changed to a reducing balance basis to better reflect the future cash flows arising from the intangible asset.

At all stages of the life cycle, the assets are subject to annual impairment testing. In most circumstances amortisation commences upon completion of the asset and is shown within administration expenses in the Statement of Comprehensive Income.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Tangible fixed assets
Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:
Short-term leasehold property - period of lease
Plant and machinery - 3 years
Motor vehicles - 5 years
Fixtures and fittings - 6 years

2. Significant Accounting Policies (continued)

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

Cash and cash equivalents
Cash and short-term deposits in the Statement of Financial Position comprise cash at bank, cash on hand and short-term deposits held with banks with a maturity of three months or less from inception.

Financial instruments
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement
In accordance with IFRS9, 'Financial Instruments' the Company has classified its financial assets as 'Financial assets at amortised cost'. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as described below:

Financial assets carried at amortised cost
This category applies to trade and other receivables due from customers in the normal course of business. All amounts which are not interest bearing are stated at their recoverable amount, being invoice value less provision for any expected credit losses. These assets are held at amortised cost.

The Company classifies its financial assets as at amortised cost only if both of the following criteria are met:
(i) the asset is held within a business model with the objective of collecting the contractual cash flows; and
(ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets at amortised cost comprise current trade and other receivables due from customers in the normal course of business and cash and cash equivalents.

The Company does not hold any material financial assets at fair value through other comprehensive income or at fair value through profit or loss. The Company does not hold any derivatives and does not undertake any hedging activities.

Trade receivables are initially recognised at their transaction price. The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. Other financial assets are recognised initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Trade and other receivables are measured at amortised cost less provision for expected credit losses.

Impairment of financial assets
The Company assesses on a forward looking basis, the expected credit losses associated with its financial assets measured at amortised cost. The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. For other financial assets at amortised cost, the Company determines whether there has been a significant increase in credit risk since initial recognition. The Company recognises twelve month expected credit losses if there has not been a significant increase in credit risk and lifetime expected credit losses if there has been a significant increase in credit risk.

2. Significant Accounting Policies (continued)

Expected credit losses incorporate forward looking information, take into account the time value of money when there is a significant financing component and are based on days past due; the external credit ratings of its customers; and significant changes in the expected performance and behaviour of the borrower.

Financial assets are written off when there is no reasonable expectation of recovery. Where receivables have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial liabilities

Initial recognition and measurement
All financial liabilities are recognised initially at fair value net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and other borrowings including directors' loans.

Subsequent measurement
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method (EIR). Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the Statement of Comprehensive Income.

This category generally applies to interest-bearing loans and borrowings.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'passthrough' arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the Statement of Comprehensive Income.

Offsetting of financial instruments
Financial assets and financial liabilities are offset with the net amount reported in the Statement of Financial Position only if there is a current enforceable legal right to offset the recognised amounts and intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Revenue recognition
Revenue includes income from the release of full games and early access versions of self-published games.

The Company designs, produces and sells computer games based on its own and third party intellectual property to digital and physical distributors, who are considered to be the Company's customers when assessing revenue recognition. The majority of the Company's sales are earned in the form of royalties received from third party distributors who have a license to sell the Company's games to consumers. Revenue is recognised at the point at which the distributor sells the content to the consumer.

The transaction price is the amount the Company is entitled to in accordance with the contractual arrangement with the third party.

Finance costs
Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2. Significant Accounting Policies (continued)

Operating leases: the Company as a lessee
Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight line basis over the lease term.

Interest income
Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Pensions
Defined contribution pension plan
The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

Provisions for liabilities
Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

Taxation
The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Current tax
The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax
Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

Development costs capitalisation
The Company invests heavily in research and development. The identification of development costs that meet the criteria for capitalisation is dependent on management's judgement and knowledge of the work done together with any agreements made with the rights holders of a specific game. Judgements are based on the information available at each period end. Economic success of any development is assessed on a reasonable basis and a review for indicators of impairment is completed by product at each period-end date. The net book values of the development intangible assets including rights acquired at 31 December 2018 are £2,693,000 (2017: £3,104,000). Intangible assets are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, for example, a decision to suspend a self-published title under development. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are reviewed by project for which there are separately identifiable cashflows.

Goodwill impairment
The carrying value of goodwill is reviewed for impairment at least annually. In determining whether goodwill is impaired an estimation of the fair value and/or the value in use of the cash generating unit (CGU) to which the goodwill has been allocated is required. This calculation of value in use requires estimates to be made relating to the timing and amount of future cash flows expected from the CGU, and suitable discount rates based on the Company's weighted average cost of capital adjusted to reflect the specific economic environment of the relevant CGU. The calculation of fair value requires estimates of the market value of the Company by reference to existing market data for the Company or for similar entities.

4. Revenue

All revenue was generated by the sale of goods.

The Company does not provide any information on the geographical location of sales as the majority of revenue is through third party distribution platforms which are responsible for the sales data of consumers.

Whilst the chief operating decision maker considers there to be only one segment, the Company's portfolio of games is split between those based on IP owned by the Company and IP owned by a third party and hence to aid the readers understanding of our results, the split of revenue from these two categories are shown below:

	2018 £'000	2017 £'000
Internal IP	32,100	14,802
Third party	11,101	14,832
	43,201	29,634

5. Operating profit

The operating profit is stated after charging:	2018 £'000	2017 £'000
Depreciation of tangible fixed assets	305	214
Profit on disposal of fixed assets	2	-
Amortisation of intangible assets, including goodwill	7,216	1,387
Defined contribution pension cost	147	32
Auditors' remuneration	-	45

Auditors' remuneration was paid by Team17 Holdings Limited until 23 May 2018 and Team17 Group Plc from that point onwards, the parent companies of the Group.

6. Employees

The average number of persons employed by the Company (including directors) during the year, was as follows:

	2018 No.	2017 No.
Staff	146	79

The aggregate payroll costs of these persons were as follows:

	2018 £'000	2017 £'000
Wages and salaries	4,944	3,892
Social security costs	340	263
Other pension costs	126	32
	5,410	4,187

7. Directors' remuneration

	2018 £'000	2017 £'000
Directors' emoluments	-	578
Company contributions to money purchase scheme	-	41
	-	619

During the year retirement benefits were accruing to Nil directors (2017 - 1) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £Nil (2017 - £427,000). The directors were remunerated by the ultimate parent company of the Group.

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £Nil (2017 - £Nil).

8. Finance income

	2018 £'000	2017 £'000
Other interest receivable	78	8

9. Finance costs

	2018 £'000	2017 £'000
Other loan interest payable	-	74

10. Tax on profit

	2018 £'000	2017 £'000
Corporation tax		
Current tax on profits for the year	2,432	2,329
Adjustments in respect of prior periods	(562)	(525)
	1,870	1,804
Deferred tax:		
Origination and reversal of temporary differences	(192)	(381)
Total tax charge	1,678	1,423

The tax assessed for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before taxation	13,837	10,100
Taxation using the UK Corporation Tax rate of 19% (2017: 19.25%)	2,629	1,944
Effects of:		
Expenses not deductible for tax purposes	695	-
Adjustments to tax charge in respect of prior periods	(562)	(525)
Other differences	-	4
Video Games Tax Relief	(444)	-
Group relief	(640)	-
Total tax charge for the year	1,678	1,423

Adjustments to tax charge in respect of prior periods relates to Video Games Tax relief claims historically submitted one year in arrears to the year the relevant games were launched.

11. Intangible assets

	Development £'000
Cost	
At 1 January 2018	5,497
Additions	5,118
At 31 December 2018	10,615
Accumulated amortisation	
At 1 January 2018	2,393
Charge for the year	5,529
At 31 December 2018	7,922
Net book value	
At 31 December 2018	2,693
At 31 December 2017	3,104

12. Tangible assets

	Short-term leasehold property £'000	Plant and machinery £'000	Motor vehicles £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 1 January 2018	85	779	151	103	1,118
Additions	40	191	31	29	291
Disposals	-	(9)	-	-	(9)
At 31 December 2018	125	961	182	132	1,400
Accumulated depreciation					
At 1 January 2018	38	364	39	43	484
Additions	15	229	14	18	276
Disposals	-	-	-	-	-
At 31 December 2018	53	593	53	61	760
Net book value					
At 31 December 2018	72	368	129	71	640
At 31 December 2017	47	415	111	60	634

13. Trade and other receivables

Amounts falling due within one year

	2018 £'000	2017 £'000
Trade debtors	6,740	5,629
Amounts owed by group undertakings	5,319	2,348
Other debtors	948	331
Prepayments and accrued income	456	199
	13,463	8,507

Intercompany balances are unsecured, repayable on demand and are not interest bearing.

14. Trade and other payables

	2018 £'000	2017 £'000
Trade creditors	328	387
Amounts owed to group undertakings	2,762	-
Corporation tax	1,023	331
Other taxation and social security	114	91
Other creditors	363	1,371
Accruals and deferred income	5,624	3,710
	10,214	5,890

Included in other creditors are directors loans of £Nil (2017: £1,345,000) which are repayable on demand. Interest is payable at 5% per annum.

Intercompany balances are unsecured, payable on demand and are not interest bearing.

15. Deferred taxation

	2018 £'000	2017 £'000
At 1 January	(260)	(641)
Charged to profit or loss	-	-
Utilised in year	192	381
At 31 December	(68)	(260)

The provision for deferred taxation is made up as follows:

	2018 £'000	2017 £'000
Accelerated capital allowances	(54)	(53)
Other short-term timing differences	(14)	(207)
	(68)	(260)

16. Other provisions

	Dilapidations £'000
Cost	
At 1 January 2018	50
Charge to profit or loss	89
At 31 December 2018	139

17. Called up share capital

	2018 £'000	2017 £'000
Authorised, allotted, called up and fully paid		
120,000 (2017: 120,000) Ordinary shares of £0.001 each	-	-

18. Reserves

Share premium account

Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

Profit and loss account

Includes all current and prior period retained profits and losses.

19. Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 £'000	2017 £'000
Not later than 1 year	63	72
Later than 1 year and not later than 5 years	142	288
Later than 5 years	-	-
	205	360

20. Related party transactions

As permitted by FRS 101 related party transactions with wholly owned members of the Team 17 Group Plc group have not been disclosed.

21. Controlling party

The intermediate parent undertaking is Team 17 Software Limited. The ultimate parent undertaking at 31 December 2018 was Team 17 Group Plc by virtue of its holding of 100% of the share capital of the company.

At 31 December 2018 there was not considered to be a single ultimate controlling party of Team 17 Group Plc.

The largest and smallest group of companies for which consolidated financial statements, including the Company, have been prepared as at 31 December 2018 is the group headed by Team 17 Group Plc. These financial statements are publicly available from Castleview House, Calder Island Way, Wakefield, WF2 7AW.